

# The Globe

Shoppers at Magazine Luiza, one of Brazil's largest appliance and home electronics retailers.



**S**ure, you've crafted detailed marketing plans for your products in those fast-growing emerging economies, but do you know how consumers will respond in the store aisles? If you don't, you're vulnerable to competitors, particularly local ones, who know how emerging market shoppers think, what they need, what they crave, and how they buy.

Multinationals have been slow to understand consumers outside Europe and North America: Baseball bats were met with amusement in soccer-loving Argentina; gardening tools flopped in Latin America's yardless neighborhoods. Unilever, having established its Ala powder detergent as a leader in southern Brazil, was unable to build a strong position in the northeastern part of the country, where women wash laundry in streams and prefer bar soap for the task. Procter & Gamble's Always feminine hygiene line, which had done well in the United States, hit a wall in Mexico, where women did not like the product.

Local retail chains, by contrast, have been quick to understand their customers and develop offerings and approaches that work for them. As a result, a new generation of retailers have steadily captured market share from savvy street vendors and

## Let Emerging Market Customers Be Your Teachers

You can learn a lot about consumer marketing in the developing world by looking at the practices of its leading retailers. *by Guillermo D'Andrea, David Marcotte, and Gwen Dixon Morrison*

mom-and-pop operations. They've also kept most multinational retailers at bay.

In developing economies, the retail aisle is where the marketing action is—it's where customers make purchasing decisions. McKinsey studies show that in China, for example, as many as 45% of consumers make those decisions inside stores, compared with 24% in the United States.

To understand how the top local chains have been so successful, we conducted a study in 2009 of large retailers in six countries. We chose homegrown leaders representing a variety of ownership models, formats, and organizational types—from family owned to public, from supermarkets to consumer electronics stores, and from hierarchical to flat. They include Beijing Hualian Group (China), Biedronka (a Polish firm owned by Portuguese retailer Jerónimo Martins), BIM (Turkey), Maga-

## Consumers in emerging markets buy a lot of the cheapest and a little of the best—and often ignore the middle.

zine Luiza (Brazil), Pick n Pay (South Africa), and Supermercados Peruanos (Peru).

In this article, we'll explain the challenges these retailers have encountered in catering to the emerging market consumer and show that the solutions they've come up with offer important lessons to multinationals. By tapping into the wisdom of these market leaders, you can put yourself a big step ahead of your competitors, both local and global.

### The Lay of the Land

In extensive interviews with shoppers, store managers, department heads, and corporate executives, we discovered that despite significant differences among markets and populations, there are some problems that all the companies we studied have faced. Most of these challenges are unfamiliar to retailers accustomed to functioning only in developed economies.

### Where's the demographic middle?

In developed countries, income groups form a more or less classic pyramid. So you can create a mass market for a sophisticated new product (think MP3 players) by first winning the approval of early adopters in the upper segments of the pyramid and then simplifying the offering and reducing the price until the product is accepted by the much larger segments at the bottom.

In emerging markets, that strategy doesn't work. The number of affluent consumers who could adopt and champion your product remains small, and they tend to gravitate toward specific luxury stores, many of them overseas. Most important, incomes don't form a smooth continuum. The distribution looks less like a pyramid than like a small stone (the wealthy) perched on a thin column (the upper middle class) that stands on a vast base (the

of the cheapest and a little of the best, often omitting the middle entirely. Multinationals, enamored of the middle and the high end, often miss that fact.

**Product knowledge may be lacking.** In developed countries, consumers in all income segments are sophisticated and knowledgeable about retail offerings. So are employees, many of whom grew up using complex products and have some higher education. But consumers who are moving into the formal economy tend to lack knowledge about such things as what products can do, why various services might improve their lives, and how to access companies' offerings. Nor do they fully understand what the consumer society is and how it works. As a result, they may be baffled by products and packaging that developed world consumers would comprehend instantly. Store employees in emerging economies suffer from the same lack of knowledge, posing an obstacle for retailers' efforts to educate shoppers.

**Consumers care about quality, not status.** In developed economies, many companies successfully position their brands as status symbols. But in areas with low incomes, that strategy often falls flat. The allure of status isn't enough to induce consumers to buy. Instead, shoppers care most about quality.

Multinationals may feel they've got the quality issue covered, but it's not always that simple. Modern packaging, for example, is a crucial element of high quality in developed countries, but it can put an offering at a distinct disadvantage in an emerging economy, conveying artificiality or lack of freshness to consumers accustomed to shopping in traditional markets. Western retailers learned the hard way that their packaging often discouraged shoppers in China, who are used to handling food products before buying them.

**Markets are changing at breakneck speed.** Finally, unlike most developed world retailers, those in emerging economies face the daunting task of keeping up with rapid market expansion and demographic change. The consumer base is

middle and lower classes).

**Customers buy the cheapest or the best.** Whether the economy is strong or weak, developed market consumers tend to buy across the price spectrum. They might show up at the register with a high-end digital camera, medium-quality linens, and cheap sunglasses. Emerging market consumers focus on essentials, favoring the lowest-priced items that offer acceptable quality, even when it comes to luxuries. They tend to know the exact price of everything they want and refuse to pay more. They also refuse to buy in greater quantities than they need, even if that means they must purchase an individual piece or two from an opened package in a traditional outdoor market.

At the same time, shoppers typically save up to indulge in more-aspirational categories such as sport shoes, cosmetics, and plasma TVs. Thus they purchase a lot

## Winning Trust

Nowhere is it more important for companies to demonstrate that they care about their customers than in emerging markets, where many shoppers start with a mistrust of multinationals, large corporations, and chain stores. Show your concern for consumers and their values, and you will be rewarded with enduring loyalty and affection.

During a hyperinflationary period in Turkey, BIM, a discount grocer with more than 2,500 stores that target the urban and rural poor, froze prices on 100 important items for three months while other retailers were raising prices daily. The tactic yielded significant gains in consumer trust as well as market share. That trust benefits BIM's private label, which now accounts for about 75% of the stores' total assortment.

BIM's organizational structure was one of the reasons the company was able to implement and afford this action: Initiatives flow down from headquarters and are executed according to companywide standards, resulting in efficient, low-cost operations.

Another Turkish grocer, Tansas, posted what it called the Incredible Consumer Rights declaration, guaranteeing satisfaction, allowing returns of partially consumed items, and vowing that out-of-stock items would be replaced with similar or better products at the same price. This daring move resulted in a 44% increase in sales.

ers, new employees receive a month of training prior to deployment, and the company continues to emphasize knowledge development even after employees have achieved high levels of expertise. These salespeople then transfer their knowledge to customers, who also receive information from presentations on TV screens throughout the stores, on such topics as cooking, housekeeping, health, navigating the internet, and learning English.

growing constantly, and, despite recent setbacks due to the global downturn, average incomes have been rising steadily. Consumers, once mainly rural, are now largely urban—75% of Brazil's and 47% of China's citizens live in cities. Consequently, they have new needs and, in many cases, greater financial resources. In addition, some coun-

### A store must be more than a source of necessities; it must also be a center of knowledge and learning.

tries are making it easier for consumers to get and use credit. Brazil, for example, now issues IDs that are like credit cards, greatly increasing shoppers' purchasing power.

Rapid growth may sound great, but emerging market retailers face enormous challenges in keeping customers and facilities safe, arranging credit, and getting people to and from stores. In many areas, the transportation infrastructure is weak or nonexistent: There was still no nearby bus terminal when the Wong Group built a shopping center in the low-income North Cone area of Lima.

### Marketing Solutions

Each retailer we studied deals with these problems in its own way, adapting its solutions to the needs of target customers. But the solutions share certain broad features, which have far-reaching implications for multinationals' marketing strategies.

**Aim low.** Forget multinationals' cherished myth that the high end is the most lucrative segment in emerging markets. Leave the rich to their shopping trips abroad, and forget about using the demographic pyramid to create a mass market for your gadget. Even if there were a sizable affluent segment to get the product started, there's little elasticity of demand in the lower segments. To make your product affordable for the masses, you'd have to trim off so many bells and whistles that it would become unrecognizable. Instead, aim your

products at the low-income segments from the very beginning.

The telecommunications company Tigo at first hesitated to lower the minimum recharge on its phone cards in Paraguay (you can't make much of a call for a centavo, company managers reasoned), but the company tripled its sales when it allowed users to recharge for tiny amounts. It wasn't that customers planned to make very short calls; they were using the cards as savings vehicles, adding a few centavos to them whenever they could. Moreover, those customers tended to make calls at night, when rates were lower, increasing utilization during off-peak hours.

**Adapt to consumers' habits.** Cater to the demand for the cheapest and the best by providing decent quality at the low end and aspirational choices at the high end. Rather than position its packaged barley breakfast as an alternative to Quaker Oats' high-end offering, the Peruvian company Malteria Lima (part of Peru's leading brewer, Grupo Backus) marketed it as a less-expensive purchase for the lower end. The product provides the breakfasts that customers are used to, with a few pluses: It comes in one-meal servings, it offers good nutritional value, its chocolate flavoring improves the taste, and it carries an endorsement from Peru's heart association.

**Don't just sell—educate.** Successful retailers figured out long ago that in an emerging market, a store must be much more than a source of basic necessities and a target for aspirations; it must be a center of knowledge and learning. For example, many retailers, including South Africa's Pick n Pay, make a concerted effort to connect with the very lowest earners, who visit stores mainly out of curiosity and for entertainment. To entice them and educate them about products, retailers often display the broadest possible range of items, even if that means stocking limited quantities of each. And they devote extensive resources to on-the-job training, turning salespeople into frontline educators.

At Magazine Luiza, one of Brazil's largest appliance and home electronics retail-

## Keeping Customers Safe

Emerging market consumers respond well to companies that watch out for their comfort, security, and dignity. Those factors are critical to the success of Pick n Pay, an innovative family-owned retailer with nearly 900 company and franchise stores in South Africa and other countries.

To make customers feel valued and at ease in what might otherwise be an intimidating environment, stores use text messaging (shoppers voluntarily provide phone numbers) and display cashiers' names at checkouts. When a store card is scanned, the register responds with a greeting identifying the

shopper by name and adding a brief, customized sales message.

Given South Africa's security issues, Pick n Pay works hard to make its stores places where people can feel safe. Surveillance systems monitor the aisles, and the company maintains a security force. But safeguarding shoppers' dignity

is paramount in a country where many have vivid memories of their treatment by former regimes. So guards are trained to adopt a helpful, nonthreatening attitude.

### Focus your brands appropriately.

The most successful brands are those that stand for quality and reliability. Biedronka, Poland's largest retail chain, offers a limited assortment of high-quality foods at more than 1,400 locations. Because of long-standing supply-chain problems in Poland, food safety is a customer priority, so the chain advertises that every day 200 of its items are tested by an independent laboratory. The policy has won strengthened customer loyalty. In places where consumers object to packaging on food, additional information helps allay concerns about lack of freshness. In China's big cities, customers of the grocer BHG can learn where

a product originated and how it got to market (in refrigerated trucks, for example) just by passing it under a scanner in a special kiosk.

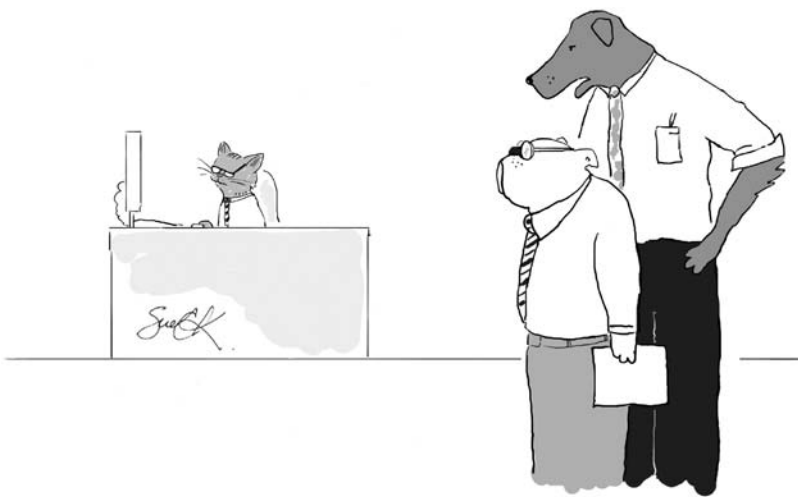
**Develop quick reflexes.** Emerging market retailers have a great deal to teach multinationals about flexibility, rapid adaptation, and expecting the unexpected—qualities that have helped the chains stay competitive. Magazine Luiza is nimble and adaptable in its deployment of no-inventory stores: 300 locations where customers can find salespeople and online catalogs but no physical items for sale. These stores allow Magazine Luiza—a technology-focused company founded a half-century

ago—to keep pace with Brazil's booming middle class without building and maintaining expensive, large-footprint facilities. They also limit the need for transporting inventory along poor roads amid heavy traffic. Salespeople assist customers with the online catalog, provide product knowledge, establish credit terms, close the sale, and arrange for home delivery.

Multinationals need to learn to be just as flexible, quick, and alert to the unexpected as emerging market retailers, taking the time to understand local markets and adjusting to changes in consumers' attitudes and innovations in selling.

**THE LESSONS** of emerging market retailers derive from the companies' experience of vying for consumers' affections against scrappy competitors amid the economic shocks and disruptions that are endemic to the developing world. Perhaps no lesson from these retailers is more important than the value of nimbleness. In fact, the best way to approach an emerging market is with openness and a sense of discovery. Customers are on a journey toward greater affluence, and your job as a marketer is to understand the realities of that journey. ▣

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"Sure he can hunt down the competition like no one but good luck getting him to take direction."

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